

CATAWBA COUNTY, NORTH CAROLINA

Management's Discussion and Analysis

As management of Catawba County, we offer readers of our financial statements this narrative overview and analysis of the financial activities of Catawba County for the fiscal year ended June 30, 2005. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the County's financial statements, which follow this narrative.

Financial Highlights

- ▶ The assets of Catawba County exceeded its liabilities at the close of the fiscal year by \$125,687,293 (*net assets*).
- ▶ The government's total net assets decreased by \$(5,523,522), primarily due to decreases in the governmental type activities net assets.
- ▶ As of the close of the current fiscal year, Catawba County's governmental funds reported combined ending fund balances of \$134,276,845, an increase of \$39,696,297 in comparison with the prior year. Approximately 89 percent of this total amount, or \$120,309,230, is available for spending at the government's discretion (*unreserved fund balance*).
- ▶ At the end of the current fiscal year, unreserved fund balance for the General Fund was \$23,648,612, or 16.1 percent of total general fund expenditures for the fiscal year.
- ▶ Catawba County's total debt increased by \$46,692,854 (67%) during the current fiscal year. The key factor for this increase was the issuance of Certificates of Participation Series 2004 in the amount of \$35,705,000. This issuance was to finance the construction and equipping of a high school and learning library/technology center for the community

college. The County also issued Certificates of Participation Series 2005 in the amount of \$19,550,000 to finance construction of a detention facility and renovate a middle school.

- ▶ Catawba County upgraded its bond rating with Standard & Poor's from AA- to AA this fiscal year and maintained its Aa2 bond rating with Moody's Investors Service for the 24th consecutive year.

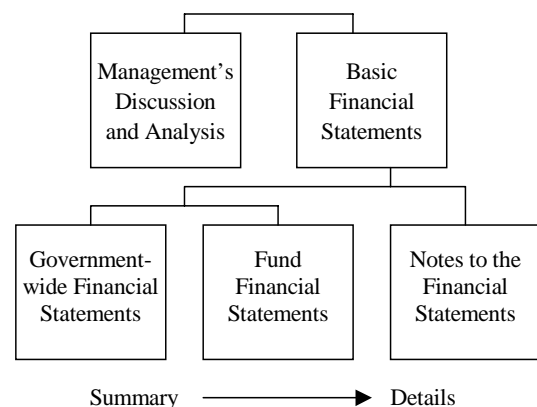
Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Catawba County's basic financial statements. The County's basic financial statements consist of three components (see Figure A).

- ▶ Government-wide financial statements
- ▶ Fund financial statements
- ▶ Notes to the financial statements

The basic financial statements present two different views of the County through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of Catawba County.

Figure A - Required Components of Annual Financial Report



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the County's financial status.

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the County's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements.

- ▶ Governmental funds statements
- ▶ Budgetary comparison statements
- ▶ Proprietary fund statements

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the County's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the County's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the County's financial status as a whole.

The two government-wide statements report the County's net assets and how they have changed. Net assets are the difference between the County's total assets and total liabilities. Measuring net assets is one way to gauge the

County's financial condition.

The government-wide statements are divided into three categories.

- ▶ Governmental activities
- ▶ Business-type activities
- ▶ Component units

The governmental activities include most of the County's basic services such as human services, education, public safety, parks, planning, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the County charges customers to provide. These include the solid waste services offered by Catawba County. The final category is the component units. Catawba Valley Medical Center (CVMC) is a public healthcare facility that is an entity of Catawba County. The County appoints the board of trustees for CVMC and has issued debt on its behalf. Although legally separate from the County, the ABC Board is important to the County because the County exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the County.

The government-wide financial statements are on Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the County's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Catawba County, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the County's budget ordinance. All of the funds of Catawba County

can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the County's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the County's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

Catawba County adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the County, the management of the County, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the County to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the County complied with the budget ordinance and whether or not the County succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the

final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

The government funds financial statements can be found on pages 18-24 of the report.

Proprietary Funds - *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses an enterprise fund to account for its solid-waste operations. This fund is the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

The proprietary funds financial statements can be found on pages 25-27 of this report.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Catawba County has two fiduciary funds, both of which are agency funds.

The fiduciary funds financial statements can be found on page 28 of this report.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 30 of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning Catawba County's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 62 of this report.

Government-Wide Financial Analysis

Table 1 - Catawba County's Net Assets

	Governmental Activities		Business-type Activities		Total		Total	
	2005	2004	2005	2004	2005	2004	Dollar Change	Percent Change
Current and other assets	\$153,501,517	\$113,687,832	\$ 14,809,317	\$ 14,090,944	\$168,310,834	\$127,778,776	\$ 40,532,058	31.72%
Capital assets	75,827,029	72,912,905	15,639,246	15,363,206	91,466,275	88,276,111	3,190,164	3.61%
Total assets	229,328,546	186,600,737	30,448,563	29,454,150	259,777,109	216,054,887	43,722,222	20.24%
Long-term liabilities	116,268,668	61,726,036	3,847,140	3,759,700	120,115,808	65,485,736	54,630,072	83.42%
Other liabilities	13,558,991	18,742,781	415,017	615,555	13,974,008	19,358,336	(5,384,328)	-27.81%
Total liabilities	129,827,659	80,468,817	4,262,157	4,375,255	134,089,816	84,844,072	49,245,744	58.04%
Net assets:								
Invested in capital assets, net of related debt	74,327,245	72,847,615	15,639,246	15,363,206	89,966,491	88,210,821	1,755,670	1.99%
Restricted	650,382	12,276,811	-	-	650,382	12,276,811	(11,626,429)	-94.70%
Unrestricted	24,523,260	21,007,494	10,547,160	9,715,689	35,070,420	30,723,183	4,347,237	14.15%
Total net assets	\$ 99,500,887	\$106,131,920	\$ 26,186,406	\$ 25,078,895	\$125,687,293	\$131,210,815	\$ (5,523,522)	-4.21%

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of Catawba County exceeded liabilities by \$125,687,293, as of June 30, 2005. The County's net assets decreased by \$(5,523,522) for the fiscal year ended June 30, 2005. The key factor for the decrease in net assets was an increase in long-term liabilities related to the issuance of Certificates of Participation.

The largest portion of net assets (71.5%) reflects the County's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. Catawba County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Catawba County's investment in its capital assets is reported net of the outstanding related debt, the resources to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

Another portion of Catawba County's net assets (.5%) represents resources that are subject to external restrictions on how they may be used. The decrease in restricted net assets was due to satisfaction of restrictions of governmental funds.

The remaining balance (28%) of \$35.1 million is unrestricted, an increase of \$4.3 million from the prior year.

Several particular aspects of the County's financial operations positively influenced the total unrestricted governmental net assets:

- ▶ Continued diligence in the collection of property taxes by maintaining a collection percentage of 97.01%, which is comparable to the statewide average of 97.03%.
- ▶ Increased sales tax revenues of approximately \$1.7 million due to economic growth in the County.

Figure B - Net Assets

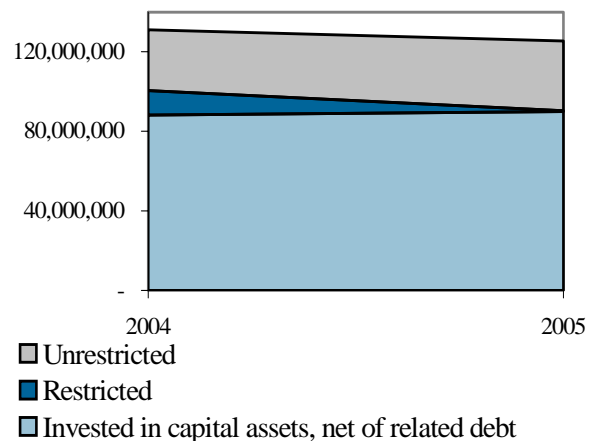


Table 2 - Catawba County Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 25,128,258	\$ 26,360,187	\$ 6,154,906	\$ 6,164,825	\$ 31,283,164	\$ 32,525,012
Operating grants and contributions	39,488,016	34,010,552	145,601	59,007	39,633,617	34,069,559
Capital grants and contributions	416,096	-	-	-	416,096	-
General revenues:						
Property taxes	64,264,969	63,381,711	-	-	64,264,969	63,381,711
Other taxes	30,498,024	28,781,523	243,796	165,754	30,741,820	28,947,277
Investment earnings, unrestricted	2,876,185	642,647	317,721	110,621	3,193,906	753,268
Total revenues	162,671,548	153,176,620	6,862,024	6,500,207	169,533,572	159,676,827
Expenses:						
General government	8,383,352	7,654,774	-	-	8,383,352	7,654,774
Public safety	19,900,883	18,701,908	-	-	19,900,883	18,701,908
Environmental protection	447,428	343,334	-	-	447,428	343,334
Economic and physical development	9,567,712	12,075,442	-	-	9,567,712	12,075,442
Human services	66,858,370	59,973,114	-	-	66,858,370	59,973,114
Cultural and recreation	2,543,170	2,412,593	-	-	2,543,170	2,412,593
Education	57,377,775	39,661,513	-	-	57,377,775	39,661,513
Interest on long-term debt	4,223,199	3,055,058	-	-	4,223,199	3,055,058
Solid waste management	-	-	5,755,205	5,022,049	5,755,205	5,022,049
Total expenses	169,301,889	143,877,736	5,755,205	5,022,049	175,057,094	148,899,785
Increase(decrease) in net assets before transfers	(6,630,341)	9,298,884	1,106,819	1,478,158	(5,523,522)	10,777,042
Transfers	(692)	-	692	-	-	-
Increase(decrease) in net assets	(6,631,033)	9,298,884	1,107,511	1,478,158	(5,523,522)	10,777,042
Net assets - beginning of year	106,131,920	96,833,036	25,078,895	23,600,737	131,210,815	120,433,773
Net assets - end of year	\$ 99,500,887	\$106,131,920	\$ 26,186,406	\$ 25,078,895	\$125,687,293	\$131,210,815

- ▶ Continued low cost of debt due to the County's high bond rating.
- ▶ Increased building permit fees of approximately .5 million in a recovering economy.
- ▶ Increase in investment earnings due to rising interest rates.

Governmental activities - Governmental activities decreased the County's net assets by \$(6,631,033). Key elements of this decrease are as follows:

- ▶ Increase in human services expenditures as a result of additional federal and state grant funding.
- ▶ Increase in interest expense as a result of increase in debt financing.

- ▶ Increase in capital expenditures for schools.

Business-type activities - Business-type activities increased Catawba County's net assets by \$1,107,511. Key elements of this increase are as follows:

- ▶ Fees charged for services continue to exceed operational expenses in the Solid Waste Fund.
- ▶ Increase in investment earnings due to rising interest rates.

Financial Analysis of the County's Funds

As noted earlier, Catawba County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the County's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The county maintains 36 individual governmental funds. Information is presented separately in the governmental funds balance sheets and statement of revenues, expenditures and changes in fund balance for the General Fund, General Capital Projects Fund, and School Construction Projects Fund, all of which are considered major funds. Data from other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements and schedules elsewhere in the report.

At June 30, 2005, the governmental funds of the County reported a combined fund balance of \$134,276,845, a 42 percent increase over last year. Included in this change in fund balance are increases in the major funds: General Fund, General Capital Projects Fund, and School Construction Projects Fund.

The General Fund is the chief operating fund of Catawba County. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$23,648,612, while total fund balance reached \$35,884,096. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 16.1% of total General Fund expenditures while total fund balance represents 24% of that same amount.

The overall fund balance increased by \$4.8 million due to increases in certain revenues such as sales tax revenue and decreases in expenditures such as human services. Additional information is provided in the discussion on General Fund budgetary highlights.

Other Major Funds - The General Capital Projects Fund is a major governmental fund. This fund accounts for various multi-year capital improvement projects. Its fund balance increased by \$16.5 million to \$25.4 million. Proceeds from the issuance of certificates of participation of \$16.9 million for a jail expansion project were the greatest financing source. This project is in its initial stages; therefore, there have been no significant changes in expenditures from the prior year. Net transfers from other funds were \$1.5 million.

The School Construction Project Fund is the County's other major governmental fund. This fund accounts for various multi-year construction projects for the three school systems and community college in the County. Its fund balance increased by \$19.6 million to \$30.2 million. The largest financing source came from the issuance of certificates of participation for \$38.3 million. Expenditures were \$19.1 million, up from \$3.8 million in the prior year, due to the increase in capital outlay for construction projects in progress. Net transfers to other funds were \$2.2 million.

Non-Major Funds - Fund balances for non-major funds decreased by \$.8 million to \$43 million overall. The Water and Sewer Reserve Fund had a significant increase in fund balance of \$1.8 million. This increase is mainly from transfers from other funds of \$1.3 million to accumulate resources for future water and sewer projects. The School Capital Fund Balance had a significant decrease of \$1.3 million. This decrease is mainly from an increase in expenditures of \$2.3 million to \$7.8

million for capital outlay for new and existing school projects. Other non-major capital funds had decreases in fund balances: Water and Sewer Construction (\$.5 million) and School Bond Fund 1997 (\$.6 million).

Proprietary Funds - The County's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Solid Waste Management Fund at the end of the fiscal year amounted to \$10,547,160. The total growth in net assets in this fund was \$1,107,511. Other factors concerning the finances of this fund have already been addressed in the discussion of the County's business-type activities.

General Fund Budgetary Highlights - During the fiscal year, the County revised the budget on several occasions. Generally, budget amendments fall into one of three categories:

- ▶ Amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available.
- ▶ Amendments made to recognize new funding amounts from external sources, such as Federal and State grants.
- ▶ Increases in appropriations that become necessary to maintain services.

Total amendments to the General Fund increased revenues by \$3,699,923 or 2.5 percent. Budgeted revenues increased due to the divestiture of Mental Health services and anticipation of additional federal and state grants available for County services.

Actual revenues were greater than final budgeted amounts by \$1,991,382. The primary factor for this included additional sales tax revenues in a recovering economy. In addition, revenues increased for investment earnings because of an increase in interest rates. Finally, the County experienced an increase in billable ambulance

charges.

Total amendments to budgeted appropriations were \$3,016,053 or 1.9%. A major amendment to the budget was the result of the divestiture of mental health services as stated above. Many County services were transferred to private mental health providers. The County now operates as a management entity for local mental health services. The net change to the Mental Health budget was an increase of approximately 1.3 million. Other amendments were mainly for expected expenditures of additional federal and state grants.

However, actual expenditures were less than final budgeted amounts by \$12,256,320. These cost savings resulted mainly from unspent appropriations of a) \$4.1 million in services and supplies of human resources departments, including the divestiture of mental health services and b) \$2.7 million in salaries and benefits due to temporary vacancies in various departments. Based on certain outcomes, the County allows several departments to retain its surplus funds from the prior year. The amount of these budgeted but unused funds was \$2.9 million.

Capital Asset and Debt Administration

Capital assets - Catawba County's investment in capital assets for its governmental and business-type activities as of June 30, 2005, totals \$91,466,275 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, and vehicles. Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- ▶ Purchase of land for additional landfill needs of \$1.5 million.
- ▶ Construction in progress for new jail expansion of \$1.8 million.

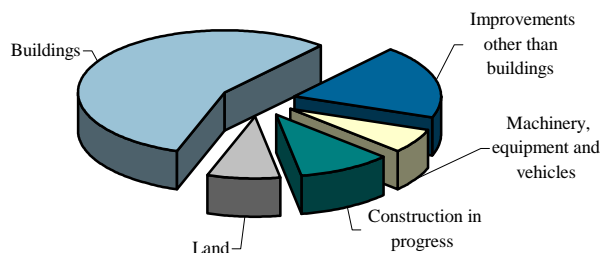
Table 3 - Catawba County's Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 6,092,870	\$ 6,092,870	\$ 5,954,738	\$ 4,448,700	\$ 12,047,608	\$ 10,541,570
Buildings	42,541,573	42,822,104	738,189	724,802	43,279,762	43,546,906
Improvements other than buildings	14,614,262	14,196,931	5,483,844	1,887,011	20,098,106	16,083,942
Machinery, equipment and vehicles	4,697,407	5,183,675	2,589,269	3,223,827	7,286,676	8,407,502
Construction in progress	7,880,917	4,617,325	873,206	5,078,866	8,754,123	9,696,191
Total	75,827,029	72,912,905	15,639,246	15,363,206	91,466,275	88,276,111

- Construction in progress for water and sewer improvements of \$2 million.

Additional information on the County's capital assets can be found in note 3.A. of the Basic Financial Statements.

Figure C - Catawba County's Total Capital Assets (net of depreciation)



Long-term Debt - As of June 30, 2005, Catawba County had total bonded debt outstanding of \$49,340,000, all of which is debt backed by the full faith and credit of the County. In addition, the County had installment purchase debt of \$9,240,000 and certificates of participation debt of \$53,805,000 collateralized by the property under construction.

Catawba County's total debt increased by \$46,605,000 (70%) during the past fiscal year, primarily due to the \$55,255,000 certificates of participation issued for the construction and equipping of a new high school, a new detention facility, community college learning library and the renovation of a middle school.

As mentioned in the financial highlights section of this document, Catawba County maintained for the 24th consecutive year, its Aa2 bond rating from Moody's Investor Service. The Standard and Poor's Corporation rating was upgraded from AA- to AA. This stable bond rating and corresponding upgrade is a clear indication of the sound financial condition of the County. This achievement is a primary factor in keeping interest costs low on the County's outstanding debt.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Catawba County is \$923,035,555. The County has \$6,970,000 million in bonds authorized but un-issued at June 30, 2005.

During the past fiscal year, the County refinanced some of its existing debt to take advantage of historically low interest rates. On June 1, 2005, the County refunded \$15,455,000 of general obligation debt with a \$16,035,000 general obligation issue. Total debt payments will be reduced by \$529,616. See note 3.B on page 50-54 of this report for more information.

Additional information regarding Catawba County's long-term debt can be found in note 3.B beginning on page 50 of this report.

Table 4 - Catawba County's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 49,340,000	\$ 55,880,000	\$ -	\$ -	\$ 49,340,000	\$ 55,880,000
Installment purchase	9,240,000	9,900,000	-	-	9,240,000	9,900,000
Certificates of participation	53,805,000	-	-	-	53,805,000	-
Total	<u>\$ 112,385,000</u>	<u>\$ 65,780,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 112,385,000</u>	<u>\$ 65,780,000</u>

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the County.

- ▶ Declining unemployment. The County's unemployment rate is 6.6% as compared to the State average of 5.9%. Although this rate is currently higher than the State average, it has been steadily declining from a high of 9.4% in 2002 and 7.2% in 2004.
- ▶ Low tax rate. The County's tax rate is .48/\$100, the 2nd lowest among urban (>100,000 population) counties and 9th lowest of all 100 counties in North Carolina.
- ▶ Creation of new jobs. The County added jobs in a variety of sectors. Administrative and waste services are up 1258 or 22.6% in the last four years, public administration is up 532 or 7.7%, accommodation and food services is up 535 or 5.2%, retail trade is up 323 or 2%, wholesale trade is up 284 or 4.6%, health care and social assistance is up 290 or 1.6%, educational services are up 275 or 2.5%, and entertainment and recreation are up 107 or 9.2%.

- ▶ Increase in sales tax revenue. Fiscal year 2005 sales tax revenues are in excess of budget, a good indication that the local economy is improving.

Budget Highlights for the Fiscal Year Ending June 30, 2006

Governmental Activities - The property tax rate is increased by one cent to \$.49/100 assessed value. This increase will provide funding for a 2% teacher supplement, based on performance, as well as to finance programs currently in place. Employee compensation includes a 2% cost of living increase and additional increases based on performance. The budget for FY 2005-06 will be \$185,438,578, a 19% decrease from the prior year because last year's budget included funding for major capital projects mentioned previously.

Business – type Activities - The \$9,084,192 budget, a 50% increase over the prior year, includes funds to cover preliminary design costs for a Regional Biosolids Processing Facility, a new project under development. Funding also includes preliminary costs for engineering and design of Unit 3 of the current landfill.

Requests for Information

This report is designed to provide an overview of the County's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Catawba County, PO Box 389, Newton, NC 28658. Online information may be found at the County's website <http://www.catawbacountync.gov>.

